CEAPRO INC

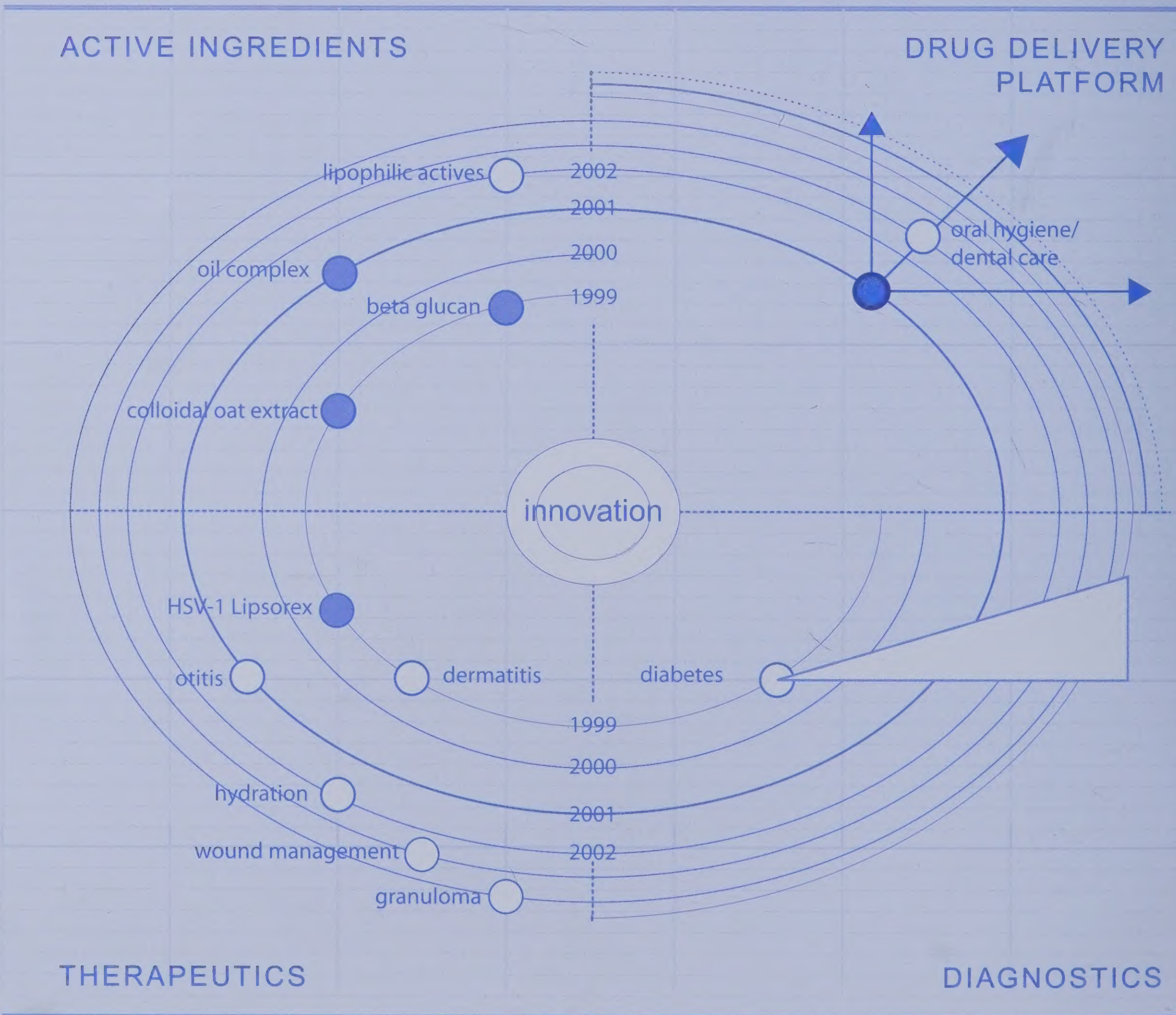
Annual Report 2001

Blueprint for Growth

Ceapro is building a profitable biopharmaceutical company.

Our proprietary technology links natural products to therapeutic medicine.

Our vision: nature enhancing life.



Key attributes:

- Patented technology
- Expanding product pipeline
- Growing markets and revenues
- Major strategic alliances with global companies
- Innovative infrastructure in discovery, development, manufacturing, and quality

CEAPRO

Nature Enhancing Life®

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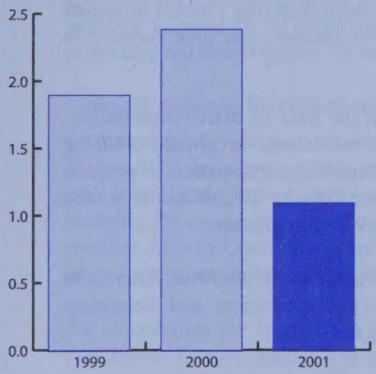
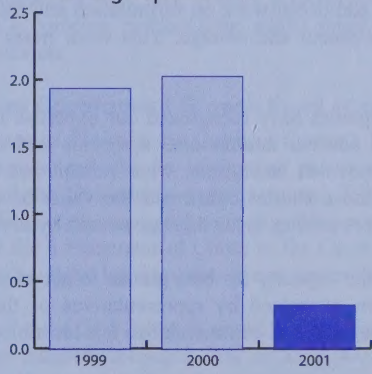
2001 Financial Overview

Deficit



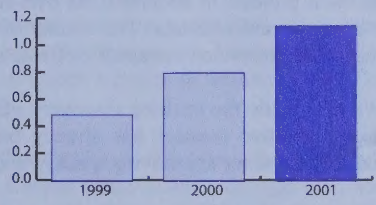
In millions of dollars

Working Capital Deficit



In millions of dollars

Revenue



In millions of dollars

2001 Significant Achievements

- ❑ Increased revenues and decreased debt
- ❑ Increased market penetration and introduced new products
- ❑ Conceived an important drug-delivery platform and filed the patent

During 2001 we made great strides in expanding the scope, potential, and value of our Company. We achieved scientific and technical milestones, we expanded the markets for our products, and we formed important strategic alliances. The addition of value drivers is indicative of the progress we have made in building the Company and in opportunities that lie ahead.

Dr. Mark J. Redmond

Letter to Ceapro Shareholders

Dear Shareholders,

We are pleased to report that 2001 was a year of significant progress as we re-energized Ceapro. We broke through old barriers and gained recognition as an entity with a significant role in the development of natural active ingredients and innovative therapeutic products. We have drawn blueprints for the future and are confident that Ceapro will become a profitable enterprise delivering benefits to health and rewards to shareholders.

The technological milestones achieved in the laboratory and the notable gains in sales have spurred momentum, whilst partnerships with major corporations provided a new perspective. We look forward to a time of growth, strength, and diverse opportunity.

Technological Advancements

To become a world-class biopharmaceutical company, Ceapro must continue to advance the commercialization of its technology and generate revenue. Over the past year we led additional veterinary products through clinical trials and towards market launch. AccuScreen, Ceapro's novel diagnostic aid for the early detection of type 2 diabetes and impaired glucose tolerance, received additional work on formulation and the manufacturing process to ensure product quality is maintained through shipment and storage. This work nears completion; we look forward to introducing the finished product in 2002.

Opinion leaders and pharmaceutical companies have recognized our expertise in the field of active ingredients,. During 2001 we accepted invitations to address international symposia and to participate in ground-breaking research projects in collaboration with renowned institutions. Most notable has been our participation in projects relating to anti-oxidants. The results of these studies confirmed the value of oat extracts as anti-oxidants, and further demonstrated therapeutic effects in reversing tissue damage caused by ultraviolet irradiation.

We also made the exciting discovery of the capacity for beta glucan to act as drug-delivery platform. Interest in this innovative concept has already been expressed by representatives of the pharmaceutical and veterinary industries and we are moving quickly to develop and commercialize this technology.

Because Ceapro is a knowledge-based company, patents are a major asset. During 2001 we not only completed new patent filings on the beta glucan drug-delivery platform, but also made filings on other applications of glucan technology. We are also pleased with the issue of patents for beta glucan formulations and methods of use, and also the issue of AccuScreen patents in foreign jurisdictions.

Sales and Marketing

Ceapro has increased sales in both the cosmetics and personal care sector, and the veterinary dermatology sector. The steady growth in demand for both colloidal oat extract and beta glucan is the result of Dragoco and Ceapro's combined efforts to meet the customers' stringent demands for quality and functionality. We anticipate further growth in 2002.

We continue to be delighted by the success of our veterinary products in Japan. A successful sales campaign over the summer, further supported by a seminar at the 22nd Annual Meeting of the Japanese Society of Veterinary Medicine, resulted in our best sales figures to date and an increase in order frequency. We continue to work with our partners Zenoaq (Nippon Zenyaku Kogyo) and Daisen Sangyo to expand our product lines.

During 2001 Ceapro acquired additional resources and equipment to meet the demands of expanding markets. The capacity for active ingredient production was enhanced by implementing further process improvements and recruiting additional production staff. Ceapro now has the product development, manufacturing, and quality control personnel critical to meet both short-term production goals and long-term corporate objectives.

Partnerships

As a biopharmaceutical company, Ceapro is a member of the life sciences industry. Life sciences is a broad discipline ranging from plant and seed breeding to agronomics and crop production, from extraction and bioprocessing to developing novel foods and medicines. In order to capture opportunities and drive innovation, we have integrated Ceapro into a network of life science partners in compatible yet diverse institutions and corporations who pool and share their specific skills and disciplines. This network, or value-chain, is a major value-driver in Ceapro's business plan.

Ceapro extended our value-chain in 2001 with the announcement of an alliance with Semundo Ltd. of Cambridge, UK. Semundo is a division of Svalof Weibull, a global leader in the breeding, biotechnology, and bioprocessing of new varieties of oil seeds and cereal grains, including oats. Through this alliance Ceapro gains access to proprietary grain varieties with unique attributes such as high beta glucan content and high oil content. We expect these new varieties to be the basis of additions to Ceapro's pipeline of active ingredients.

Finance: Resolution of CCAA

On May 25, 2001 Ceapro, having restructured its business and met its financial obligations, received full discharge from the Companies' Creditors Arrangement Act (CCAA). Ceapro, operating under the constraints of CCAA since September 1997, is now able to conduct its business under normal conditions. This is a major achievement!

In completing the restructuring plan, Ceapro worked closely with the creditors to ensure that full and fair settlements of the outstanding obligations were met. We are grateful for the co-operation of our creditors whose patience allowed us to complete a complex restructuring whilst retaining the core assets of the Company and protecting the shareholders' investments.

Lawsuit against Saskatchewan Government Growth Fund *et al.*

Ceapro originally filed its Statement of Claim in the Court of Queen's Bench of Alberta on December 17, 1999. During 2001 legal proceedings commenced with the 'discovery' process. Hearings took place in Edmonton during which principals from Ceapro and the Defendants were examined. It became clear that procedural issues were delaying the examination of the facts of the case and were impeding progress. For this reason, Ceapro decided to stay the Alberta Court action and file a Statement of Claim in the Court of Queen's Bench of Saskatchewan. The filing took place on March 22, 2002 and the legal process is now underway.

To ensure that the legal costs of the SGGF lawsuit could be met without a direct effect on the Company's operations, Ceapro established an independent legal fund of $500,000. Ceapro shareholders, Management, and associates have participated in this investment which has ensured the necessary funds are available to pursue this case to the fullest extent.

Blueprint for Growth

With the Company restructuring plans nearing completion, we have developed a new growth strategy for Ceapro. Within the strategy we shall continue to provide active ingredients to the personal care and wellness markets, and to shall pursue the development of higher value proprietary products coupled to marketing agreements. We continue to add value to new concepts, driving technology to a position where partnerships and joint ventures may be formed.

Ceapro's Board and Management are confident that this new strategy will establish Ceapro as a world-class biopharmaceutical company.

Sincerely,

Edward Taylor
Chairman

Mark J. Redmond, Ph. D.
Chief Operating Officer

Blueprint for Growth

Ceapro is a biopharmaceutical company using proprietary technology to link natural products to medical science.

We supply active ingredients and therapeutic products to the global health and wellness industries.

We embody nature enhancing life.

Focus

Ceapro currently operates in three areas: active ingredients, therapeutic products, and diagnostic aids. A fourth area of drug-delivery platforms is in the development stage awaiting commercial launch targeted for 2003. Ceapro will make a concerted effort to build up the active ingredient and therapeutic product sectors whilst continuing to add value to the diagnostic aids and drug-delivery platform, bringing them through the pre-market stages to a partnering position.

Strategy

- Increase sales and expand markets for active ingredients
- Develop additional high-value proprietary therapeutic products
- Advance new technology to a partnering position

We are confident that by satisfying our customers' demands, we will expand our markets and increase products sales, securing healthy margins. Market expansion will require the hiring of additional staff in the areas of marketing and technical support.

With respect to manufacturing capacity, Ceapro is able to meet the next two years' projected market demands for products through the use of our own manufacturing resources, the infrastructure of the Government of Alberta FPDC facility at Leduc, Alberta, and other contract manufacturing facilities. We have already enhanced production capacity through the acquisition of specific process equipment, and we anticipate the Company will acquire additional equipment over the next 18 months to further increase capacity and accommodate the manufacturing of new products.

New technology platforms represented by the beta glucan drug-delivery platform clearly have enormous scope in terms of applications and fields of use. We are committed to developing prototype products to demonstrate the versatility of the technology and to attract partners to license specific technology applications.

Additional financial resources will be required to seize the advantages of new technology. The Board and Management are aware that current financial market conditions do not favour the raising of capital through conventional offerings so we are exploring alternatives. However, we remain confident that a review of Ceapro's assets and potential will encourage investment in the Company and support our growth.

This annual report may contain forward-looking statements. The Company is including this cautionary statement identifying important factors that could cause the Company's actual results or plans to differ materially from those projected in such forward-looking statements. Various factors, many of which are beyond the control of the Company, which could cause actual results to differ from the projections include those predicting the timing of clinical trials; the availability or adequacy of financing; the manufacture, distribution, sales, and marketing of commercial products; the efficacy of products; receiving regulatory clearances for products; being able to adequately protect the Company's proprietary information and technology from competitors; and assuring that the products of the Company, if successfully developed and commercialized following regulatory approval, are not rendered obsolete by products or technology of its competitors. Although the Company believes that the forward-looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Growth Factors

Innovation

Ceapro's scientific team has broad expertise ranging from natural product chemistry to microbiology, from biochemistry and immunology, to medical sciences. These skills merge in the characterization of active ingredients, therapeutic product design, and performance benchmarking.

Raw materials

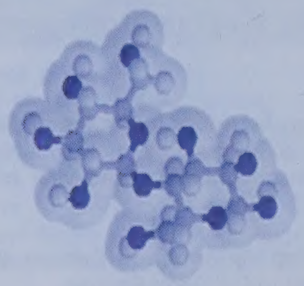
Access to proprietary varieties of seeds and plants gives Ceapro a strategic advantage. Raw materials with enhanced active ingredient content increase production efficiencies and enable technology deployment hitherto restricted by composition.

Extraction Technology

A cornerstone of Ceapro's operations is the process technology through which the maximal biological activity of our active ingredients is retained and product performance enhanced.

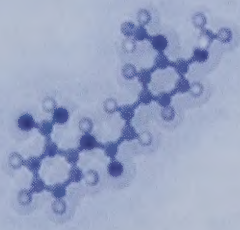
Active Ingredients

Beta Glucan



Oat beta glucan is a natural co-polymer of glucose. Ceapro scientists have studied this material for more than 12 years and have developed a product with attributes in high demand by today's health and wellness industries. Of particular importance are the natural immune stimulation and healing properties.

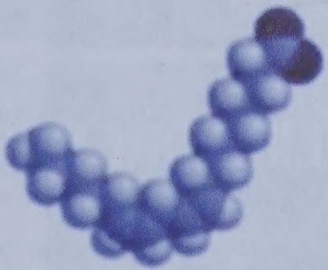
Colloidal Oat Extract



Colloidal oat extract is a unique Ceapro product. Characterized by a high level of avenanthramides, this active ingredient has natural anti-histamine activity producing a calming, therapeutic effect on the skin.

The avenanthramides are also potent anti-oxidants.

Oat Oil Complex



Ceapro oat oil contains a defined mixture of lipid-soluble natural anti-oxidants in great demand by today's personal care industry.

Of particular importance is the presence of lipophilic active ingredients and avenanthramides which expands the range of applications of this product.

Therapeutic Products

Dermatitis

Atopy (the clinical manifestation of hypersensitivity), together with other dermatological problems, is the most common non-surgical health problem encountered by veterinarians. Ceapro contributes two innovative products to veterinary medicine in the form of oat shampoo for the adjunctive treatment of dermatitis and ear cleanser for the treatment of otitis (ear infection).

In treating pruritus (itching) and erythema (redness), Ceapro combined the therapeutic advantages of avenanthramides with beta glucan to produce a topical formulation that reduces irritation and initiates healing.

The otitis therapy acts to control the growth of bacteria and yeast in the ear canal whilst cleansing and reducing irritation. The product has found application as a non-steroidal anti-inflammatory product for the treatment of otitis.

Wound Management

The next series of veterinary products, currently in pre-clinical studies, is wound dressings based on beta glucan technology. Scientists consider beta glucan an exceptional biological response modifier which stimulates the immune system and enhances tissue and collagen growth.

We expect the wound dressings to have a profound effect on the healing of incisions, abrasions, ulcers, lacerations, chronic wounds, and the treatment of burns. This new product series is expected to be introduced by our animal health partners during 2003.

Other dressings containing additional active ingredients, such as antibiotics, are planned to extend the wound management product range.

Herpes Simplex Virus Therapy

Ceapro's roots in therapeutic products may be traced to the formulation of Lipsorex®. Lipsorex® contains antiviral agents, and natural active ingredients that relieve the pain and discomfort associated with cold sores.

Ceapro has broad global patents protecting Lipsorex®. In Canada, the commercial rights to Lipsorex® are licensed to CanDerm Pharma.

Diagnostic Aids

AccuScreen: Diagnostic Aid for Type 2 Diabetes and Impaired Glucose Tolerance

Health authorities have recognized that the prevention of type 2 diabetes demands early detection. AccuScreen is more sensitive and more accurate than current tests, and, for the patient, is a more acceptable test for the early detection of diabetes.

Ceapro intends to deploy AccuScreen in 2002, initially through local healthcare providers.

Growing the Next Generation

Beta Glucan Drug-Delivery Platform

The recent advances in the field of pharmaceuticals and the growth of genomics and proteomics have increased the demand for drug-delivery platforms. Ceapro has developed beta glucan into a drug-delivery platform technology compatible with these needs. Furthermore, the immune system targeting activity of beta glucan gives this novel technology application in the development of new vaccines and protective agents against infectious diseases.

The US FDA has approved beta glucan for injection, topical application, and oral ingestion. The Ceapro drug-delivery platform offers advantages over other drug-delivery systems because it is an aqueous system compatible with proteins and drugs.

The drug-delivery platform technology is secured by not only patent filings which protect the broad application of beta glucan to drug-delivery, but also by Ceapro's issued patents for formulations and methods to produce the beta glucan used by this technology.

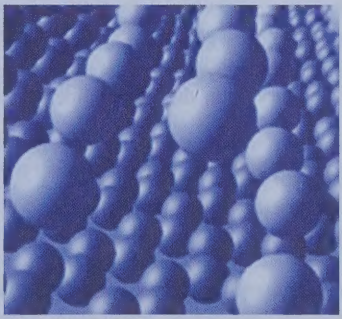
At present, the global drug-delivery market is estimated to exceed $40 billion, growing to $70 billion by 2005. We expect our drug-delivery platform to allow Ceapro to enter this fast growing market.

Hydrosol/Gel

Beta glucan hydrosol disperses on contact to form a coating film. Utility ranges from antibiotics to anesthetics.

The hydrosol/gel formulations have broad applications through most modes of administration.

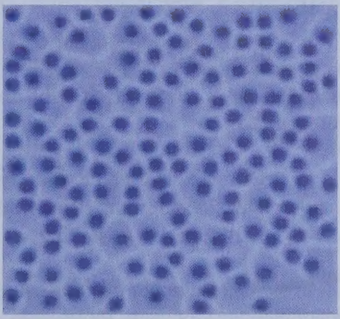
Nanosphere



Beta glucan nanospheres may be applied topically, injected, or ingested to provide a slow release of active ingredients.

Applications in the personal health and cosmetics sectors are also in development for the delivery of fragrance and flavours.

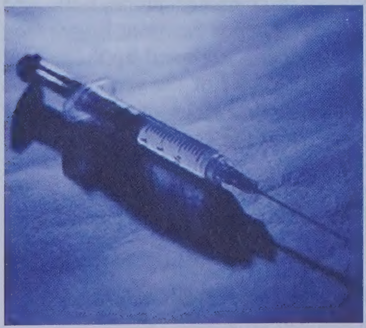
Thin-Film



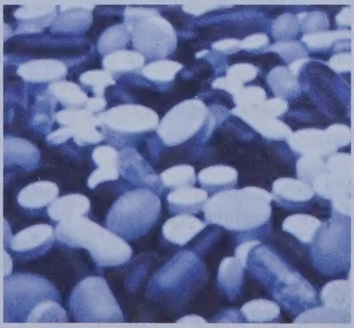
Thin film technology has applications in the delivery of active ingredients and in the field of biosensors.

Thin films may be applied topically, ingested, or implanted to deliver their benefits.

Injection



Oral



Topical

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements and accompanying notes, which are prepared in accordance with generally accepted accounting principles in Canada.

Overview

Ceapro Inc. ("Ceapro" or the "Company") is an early stage biopharmaceutical company incorporated in January 1997 under the Business Corporations Act of Alberta. The Company's business is the development and commercialisation of proprietary technology that links natural products to medical science.

Ceapro's business stems from a portfolio of proprietary technology based on the unique biochemical properties of specific plant materials. Ceapro markets products that include the active ingredients beta glucan and colloidal oat extract, and the therapeutic products Lipsorex®, *Oats Shampoo*, and *Oats Ear Cleanser*. Other products and technology are in development and include a diabetes screening test and a drug-delivery platform. To fund its operations, Ceapro relies upon revenues generated from the sale of active ingredients and therapeutic products, and the proceeds of public and private offerings of equity securities and debentures.

Business Strategy

Ceapro is a biopharmaceutical company providing active ingredients and therapeutic products to the health and wellness industries. The Company operates currently in three areas: active ingredients, therapeutic products, and diagnostic aids. A fourth area of drug delivery is in the developmental stage. Our business strategy directs the company to:

- Increase sales and expand markets for active ingredients
- Develop additional high-value proprietary therapeutic products
- Advance new technology to a partnering position

During 2001, a number of significant developments in Ceapro's product and corporate development strategies have positioned the Company for growth.

In April the Amended Plan of Arrangement under the Companies' Creditors Arrangement Act (CCAA) was approved in the Court of Queen's Bench along with authorization to terminate the order upon the issuance of common shares to creditors. The resolution of CCAA has allowed the Company to resume operation under standard terms of business.

Throughout the year, Ceapro, in partnership with its cosmetic and personal care partner, Dragoco Gerberding (Germany), stepped-up sales and promotional activity for oat derived active ingredients. In May, a major initiative was launched in Hamburg to promote the benefit of oats. Ceapro has also worked closely with academic and industrial partners in Europe to discover and characterise the functional benefits of oat extracts.

In May, our Japanese partners held a product launch. The new product is a combined prophylactic and therapeutic treatment for otitis. The ear cleaner is distributed through Zenoaq Nippon Zenyaku Kogyo Co., Ltd (Japan) and is marketed through veterinarians. The new product, immediately accepted by the animal health community, necessitated a number of repeat orders throughout the remainder of the year. Zenoaq's sales of oat shampoo continued increased, accompanied by the Australian introduction of the veterinary line of dermatological products.

Sales of beta glucan to Brennen Medical (St. Paul, MN) commenced in April. Brennen Medical is the developer and marketer of wound-care dressings and creams. Partnerships and distribution agreements were completed with Ultravena Industries (USA) Ltd., Nutrinova, and Semundo Ltd.

A series of debenture financings took place for a total of $643,000. These financing vehicles provided the funds necessary to support marketing efforts and to advance product development programs.

In December, a new patent filing was made for the beta glucan drug-delivery platform. This innovative technology represents a major growth and strategic partnership opportunity for the Company.

These significant events in 2001 had a direct effect on Ceapro's operating results for the year, reflecting the year-over-year increase in revenues, the decrease in net loss and the reduction of debt. Through these strategic developments, Ceapro has made meaningful progress towards realizing its goal of building a profitable company serving the global health and wellness industries.

Results of Operations

The loss for the year ended December 31, 2001 decreased by $570,000 or 62% over last year. This decrease was achieved by an increase in sales and operating efficiencies, a reduction in selling, general and administrative expenses, the sale of an interest in the net proceeds, if any, from a lawsuit in which the Company is suing the SGGF, settlement of payables and forgiveness of debt, along with the conversion of certain deferred salaries and Directors' fees to stock based compensation. These improvements were partially offset by increased interest costs and research and product development costs. Notwithstanding the overall improvements, the sales volume relative to the overall costs of continuing operations has resulted in continued losses for the Company. Management of the Company continues to be focused on increasing sales and improving gross margins to bring the Company into a profitable position.

Revenue

Revenues for the year ended December 31, 2001 of $1,149,000 increased by $340,000 or 42% over last year. Colloidal oat extract continues to gain in acceptance, as it is a primary ingredient in a new infant care product line introduced by a major multi-national corporation in September 2000. In addition, a major sale of Ostar® oat powder was completed in the third quarter of this year.

The gross margin of $421,000 increased by $130,000 or 45% due primarily to the increased sales and operating efficiencies resulting from increases in the volume of products manufactured over the year.

Operating Expenses

Research and Development

Research and Development expenses of $397,000 increased by 35%. The majority of expenses were attributable to the development of new products in active ingredients, therapeutic products, diagnostics, and drug-delivery. It is anticipated that some of these expenditures will be offset through new and existing collaborative arrangements and/or new licensing opportunities.

General and Administrative

General and administrative expenses of $692,000 for the year ended December 31, 2001 decreased by $86,000 or 11%. Decreases were due to the departure of the President and CEO in July and the conversion of certain Executives' and Board of Directors' compensation to stock-based compensation. However, the decreases were partially offset by costs associated with the preparation and filing of the Amended Plan of Arrangement under the Companies' Creditors Arrangement Act (CCAA).

The Amended Plan of Arrangement was approved on April 25, 2001 in the Court of Queen's Bench along with authorization to terminate the order upon the issuance of common shares to creditors. During the second quarter of 2001, the CDNX and the Alberta Securities Commission approved the issuance of 4.4 million shares in exchange for $881,000 of unsecured debts of the Company.

In 2001 interest on convertible debentures and long-term debt increased by $18,000 or 19% due primarily to the increase in the balance of convertible debenture debt outstanding throughout the year.

Liquidity and Capital Resources

During the 12 months ended December 31, 2001, the Company completed additional debenture financings of $643,000. In addition, $480,000 of previously issued convertible debentures were converted to 1,887,233 common shares, 300,000 options were exercised at a price of $0.25 per share, 75,000 options were exercised at a price of $.012 per share, and $881,000 of unsecured debt was exchanged for common shares at a price of $0.20 per share. Total common shares issued and outstanding as at December 31, 2001 were 29,360,122.

During the latter half of the year, agreements were reached with certain Company Executives to convert $325,000 of unpaid compensation and amounts due under a termination agreement to stock-based compensation amounts.

These financings allowed the Company to reduce its working capital deficiency by $1.7 million or 83% during the twelve-month period. The Company continues to pursue additional financings to fund the existing working capital deficit of approximately $351,000 and to secure the financial resources required to support the expected significant increases in both the volume of sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

To meet future requirements, the Company intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, capital leases, and collaborative and licensing agreements. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the control of the Company, as outlined in the section below. Should sufficient capital not be raised, the Company may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Impact of New Accounting Pronouncements in 2002

In January 2002, the recommendations of the new CICA Handbook section 3870 *Stock-Based Compensation* became effective for Canadian public enterprises. This new pronouncement requires that stock options granted to employees and to all non-employees who meet the criteria for compensatory awards be measured on a fair value basis using an options pricing methodology. Insofar as the Company's current stock option plan is expected to meet the criteria as a non-compensatory plan under the new standard, and as grants to non-employees will be minimal, Management believes that prospective implementation of section 3870 will have no material effect on financial results.

In addition, the Company adopted the revised CICA Handbook section 1650 *Foreign Currency Translation* in January 2002. The major impact of this amendment is to eliminate the provision for deferral and amortization of unrealized exchange gains and losses for long-term monetary items, requiring instead that such gains and losses be recognized in income in the period that they occur. Since the Company has no long-term assets or liabilities that were subject to deferral treatment under the previous standard, there should be no prospective earnings impact in adopting the new recommendations.

Risks and Uncertainties

Biotechnology and biopharmaceutical companies in the development stage are subject to a number of risks and uncertainties that are inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies, the regulatory environment including delays or denial of approvals to market the Company's products, the impact of technological change and competing technologies, the ability to protect and enforce the Company's patent portfolio and intellectual property assets, the ability to manufacture our extracts and formulations in sufficient quantities for clinical trials and market seeding, the availability of capital to finance continued and new product development, the ability to secure strategic partners for late stage development, marketing, and distribution of the Company's products. To the extent possible, Management pursues and implements strategies to reduce or mitigate the risks associated with the Company's business.

Interest rate risk is the exposure of interest revenue and expense to rate fluctuation; inflation risk is loss of purchasing power due to rising prices. Economic forecasts project a stable outlook for both inflation and interest rates in the near future; hence, these risks are expected to be negligible. Furthermore, the Company's convertible debentures and lease commitments have fixed interest rates over the terms of the obligations.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the biopharmaceutical industry. Due to the current share price, there is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. Finally, the expectations of securities analysts and major investors about the Company's financial or scientific results, the timing of such results and future prospects, could also have a significant effect on the future trading price of the Company's shares.

Outlook

Ceapro entered 2002 with a portfolio of patented technology, a healthy product pipeline, and growing revenues from a base of product sales to the wellness (personal care and cosmetics) and animal health industries. Long-term licenses and/or formal agreements support our sales, product supply, and collaborative research initiatives.

The strategic focus for the company over the next three years will be to increase manufacturing capacity and expand markets for active ingredients, develop additional high-value proprietary therapeutic products, and to advance new technology to a partnering position. As a knowledge-based enterprise we shall also expand and strengthen our patent portfolio, and build the necessary infrastructure to achieve our goal of becoming a global biopharmaceutical company.

To support these objectives, Management believes that it has the requisite competitive advantages, inherent in its intellectual and human capital, and the resources in its partnerships to exploit its technology. If Ceapro is to realize its strategic vision to become a profitable biopharmaceutical company, its success will depend largely on the creative talents and energies of its employees, and the prudent commercialisation of its intellectual property.

A variety of factors will affect the Company's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in the areas of operation, the ability to recruit and retain qualified personnel, and the Company's ability to raise capital.

Management intends to implement the Company's strategic goals and operating plans in a measured and responsible manner. Operating results are expected to improve over the next three years and Management remains committed to its goal of delivering value for the shareholder.

Forward-Looking Statements

Except for historical information, certain matters discussed in this document are by their nature forward-looking and are, therefore, subject to risks and uncertainties, which may cause actual results to differ materially from the statements made. A detailed description of the Company's risks and uncertainties is included in its filings with Canadian securities authorities.

Management Report

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this annual report, are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles.

To further the integrity and objectivity of data in the financial statements, the Management of the Company has developed and maintains a system of internal accounting controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee is appointed by the Board, and the majority of its members are outside and unrelated directors. The Committee meets periodically with Management as well as quarterly with the external auditors, to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual financial statements, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit committee, with and without Management being present.

These financial statements have been audited by the Company's auditors, Stout & Company LLP.

Edward Taylor
Chairman

Mark J. Redmond, Ph. D.
Chief Operating Officer

CEAPRO INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

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AUDITORS' REPORT

To: The Shareholders of
CEAPRO INC.

We have audited the balance sheets of **Ceapro Inc.** as at December 31, 2001 and 2000, and the statements of loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
March 15, 2002

Signed "Stout & Company LLP"
Chartered Accountants

CEAPRO INC.

BALANCE SHEETS - DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
CURRENT ASSETS		
Cash	$ 50,807	$ 37,676
Accounts receivable	79,880	70,362
Inventories	86,811	63,635
Prepaid expenses	55,091	8,897
	272,589	180,570
CAPITAL ASSETS (note 5)	100,737	113,578
	$ 373,326	$ 294,148
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 521,867	$ 1,752,415
Loans payable (note 6)	20,123	133,623
Current portion of convertible debentures	51,649	300,492
Current portion of long-term debt	30,354	25,137
	623,993	2,211,667
CONVERTIBLE DEBENTURES (note 7)	796,246	418,941
LONG-TERM DEBT (note 8)	31,368	54,517
ROYALTIES PAYABLE (note 16 (b))	59,023	-
	1,510,630	2,685,125
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (note 9)	45,961,622	44,329,465
DEFICIT	(47,098,926)	(46,720,442)
	(1,137,304)	(2,390,977)
	$ 373,326	$ 294,148

Going concern (note 2)

See accompanying notes

Approved On Behalf Of The Board

Director Signed "Edward A Taylor"   Director Signed "David B. Harvey"

CEAPRO INC.

STATEMENTS OF LOSS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Sales (note 11)	$ 1,149,443	$ 808,854
Cost of sales	728,411	517,683
Gross margin	421,032	291,171
Expenses		
Selling, general and administrative	691,917	777,793
Interest on convertible debentures	106,432	86,386
Interest on long-term debt	6,787	8,548
Amortization	24,253	27,993
	829,389	900,720
Loss from operations	408,357	609,549
Other (income) expenses		
Research and development	396,998	293,428
Sale of interest in lawsuit (note 10 (a))	(120,000)	-
Other income (note 12)	(339,252)	-
Loss on disposal of capital assets	-	12,918
	(62,254)	306,346
LOSS FOR THE YEAR	$ 346,103	$ 915,895
BASIC AND DILUTED LOSS PER SHARE (note 14)	$ 0.01	$ 0.04

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF DEFICIT

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Deficit at beginning of year		
As previously reported	$ 46,720,442	$ 45,804,547
Adjustment to deficit at beginning of year for prior years effect of change in method of accounting for stock based compensation (notes 4 (a) and 9 (c))	32,381	-
As restated	46,752,823	45,804,547
Loss for the year	346,103	915,895
DEFICIT AT END OF YEAR	$ 47,098,926	$ 46,720,442

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
OPERATING ACTIVITIES		
Loss for the year	$ (346,103)	$ (915,895)
Add items not affecting cash		
Amortization	24,253	27,993
Loss on disposal of capital assets	-	12,918
Settlement of accounts payable	(92,334)	-
Conversion of deferred salaries and directors' fees to stock based compensation	(148,418)	-
Reduction of loan payable	(98,500)	-
Stock based compensation	124,133	-
	(536,969)	(874,984)
Changes in non-cash working capital items		
Accounts receivable	(9,518)	17,541
Inventories	(23,176)	(17,566)
Prepaid expenses	(46,194)	525
Accounts payable and accrued liabilities	(112,396)	115,072
	(728,253)	(759,412)
INVESTING ACTIVITIES		
Purchase of capital assets	(11,411)	(33,104)
Proceeds on disposal of capital assets	-	2,541
	(11,411)	(30,563)
FINANCING ACTIVITIES		
Decrease in loans payable	(15,000)	(92,377)
Proceeds from convertible debentures	642,704	788,829
Decrease in long-term debt	(17,932)	(22,934)
Increase in royalties payable	59,023	-
Proceeds from exercise of warrants	-	99,941
Proceeds from exercise of options	84,000	6,500
Issuance of common shares	-	23,672
	752,795	803,631
Increase in cash	13,131	13,656
Cash at beginning of year	37,676	24,020
CASH AT END OF YEAR	$ 50,807	$ 37,676

Going concern (note 2)

	2001	2000
Supplementary information:		
Interest paid	$ 115,085	$ 82,485

See accompanying notes

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "company") was incorporated under the Business Corporations Act of Alberta and is listed on the TSX Venture Exchange. The company's primary business activities relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

2. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. However, the company has experienced significant operating losses and its ability to continue operations is dependent upon achieving profitability or securing additional debt or equity financing. The use of Canadian generally accepted accounting principles that are applicable to a going concern may be inappropriate because there is significant doubt about the appropriateness of the going concern assumption.

These financial statements do not give effect to adjustments to the amounts and classifications of assets and liabilities that would be necessary should the company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those in the accompanying financial statements.

On February 27, 1998, the company obtained an order of the Court of Queen's Bench of Alberta pursuant to the Companies' Creditors Arrangement Act to facilitate a restructuring of its unsecured debt. On March 2, 1998, the company submitted a formal plan of arrangement whereby it proposed to pay its unsecured creditors with a claim of greater than $1,000, by payment of one third of their claim in cash and two thirds in Class A shares of the company based on a share price of $1.25. Unsecured creditors with a claim of less than $1,000 were proposed to be paid in cash only. On March 25, 1998, the unsecured creditors voted to accept the plan of arrangement. On May 26, 1998, an Order of the Court of Queen's Bench of Alberta was issued approving the plan and the shares were issued. At December 31, 2000, included in accounts payable and accrued liabilities is approximately $960,000 pursuant to the plan of arrangement.

3. ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant area requiring the use of management estimates relates to amortization of capital assets and the interest rate and stock volatility used in determining stock based compensation and the interest rate used in determining the equity component of the convertible debentures. Actual results could differ from those estimates.

3. ACCOUNTING POLICIES (continued)

(b) Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis.

Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on a first-in, first-out basis.

(c) Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Office and manufacturing equipment	20% declining balance
Computer equipment	30% declining balance
Manufacturing equipment under capital lease	20% declining balance

(d) Research and development expenditures

Research costs are expensed when incurred. Development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(e) Foreign currency

Monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at period end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income except those pertaining to long-term debt which are deferred and amortized over the remaining term of the debt.

(f) Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under the liability method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

3. ACCOUNTING POLICIES (continued) –

(g) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(h) Government assistance

Government assistance is periodically applied for under available government incentive programs. Government assistance relating to research and development expenditures are recorded as a reduction of the expenditures when received.

(i) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(j) Net income (loss) per share

Net income (loss) per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net income (loss) per share reflects the assumed conversion of all dilutive securities using the treasury stock method.

(k) Stock based compensation

Stock based compensation of employees and directors is recorded in accordance with the fair value based method.

4. CHANGE IN ACCOUNTING POLICIES

(a) Effective January 1, 2001, the company has adopted the new Canadian Institute of Chartered Accountants Handbook Section #3870 - Stock Based Compensation. The policy was applied without restatement of prior period financial statements. The deficit at January 1, 2001 was increased by $32,381 and the stock based compensation component of share capital was increased by $32,381.

4. CHANGE IN ACCOUNTING POLICIES (continued)

(b) Effective January 1, 2001, the company retroactively adopted the new Canadian Institute of Chartered Accountants Handbook Section #3500 - Earnings Per Share. The standard requires the disclosure of the calculation of basic and diluted earnings per share, and the use of the treasury stock method for calculating the dilutive impact of convertible securities and stock options. There was no impact of the change on diluted loss per share for December 31, 2001 or 2000.

5. CAPITAL ASSETS

	2001		
	Cost	Accumulated Amortization	Net
Office and manufacturing equipment	$ 122,946	$ 64,598	$ 58,348
Computer equipment	100,010	80,814	19,196
Manufacturing equipment under capital lease	38,905	15,712	23,193
	$ 261,861	$ 161,124	$ 100,737

	2000		
	Cost	Accumulated Amortization	Net
Office and manufacturing equipment	$ 124,470	$ 55,012	$ 69,458
Computer equipment	95,463	74,536	20,927
Manufacturing equipment under capital lease	30,517	7,324	23,193
	$ 250,450	$ 136,872	$ 113,578

6. LOANS PAYABLE

	2001	2000
10% loan payable to employees	$ 2,500	$ 2,500
12% loan payable to a shareholder	17,623	22,623
10% loan payable, secured by a general security agreement	-	10,000
Loan payable, non-interest bearing	-	98,500
	$ 20,123	$133,623

The loans payable have no fixed terms of repayment and are due on demand.

7. CONVERTIBLE DEBENTURES

	2001			2000
	Face Value	Equity Component	Net	Net
Series 1	$ 30,000	$ 1,748	$ 28,252	$ 28,252
Series 2	25,000	1,336	23,664	272,240
Series 3	296,221	18,121	278,100	418,941
Series 4	340,064	24,100	315,964	-
Series 5	230,633	28,718	201,915	-
	921,918	74,023	847,895	719,433
Less current portion	51,649	-	51,649	300,492
	$ 870,269	$ 74,023	$ 796,246	$ 418,941

(a) Series 1

During the year ended December 31, 1999, convertible debentures with a face value of $237,057 were issued by the company. During the year ended December 31, 2000, debentures with a face value of $207,057 were converted into 828,628 common shares.

During the year ended December 31, 2001, no conversions occurred.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in April and November. The debentures are due on or before October 22 , 2003, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.80	January 1, 2001 to October 22, 2002
$ 1.00	October 23, 2002 to October 22, 2003

7. CONVERTIBLE DEBENTURES (continued)

(b) Series 2

During the year ended December 31, 2000, convertible debentures with a face value of $344,860 were issued by the company. During the year ended December 31, 2000, debentures with a face value of $57,250 were converted into 229,000 common shares.

During the year ended December 31, 2001, debentures with a face value of $262,610 were converted into 1,050,440 common shares.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in February and August. The debentures are due on or before February 15, 2004, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.50	January 1, 2002 to February 15, 2002
$ 0.80	February 16, 2002 to February 15, 2003
$ 1.00	February 16, 2003 to February 15, 2004

(c) Series 3

During the year ended December 31, 2000, convertible debentures with a face value of $443,969 were issued by the company. During the year ended December 31, 2000, no conversions occurred.

During the year ended December 31, 2001, debentures with a face value of $145,806 were converted into 364,515 common shares.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in January and July The debentures are due July 28, 2004, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.75	January 1, 2002 to July 28, 2002
$ 1.05	July 29, 2002 to July 28, 2003
$ 1.40	July 29, 2003 to July 28, 2004

7. CONVERTIBLE DEBENTURES (continued)

(d) Series 4

During the year ended December 31, 2001, convertible debentures with a face value of $405,073 were issued by the company. During the year ended December 31, 2001 debentures with a face value of $65,010 were converted into 433,398 common shares.

The convertible debentures are unsecured, interest bearing at 10% per annum, with interest payable semi-annually in February and August. The debentures are due on or before February 7, 2005, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.15	January 1, 2002 to February 7, 2002
$ 0.30	February 8, 2002 to February 7, 2003
$ 0.60	February 8, 2003 to February 7, 2004
$ 0.90	February 8, 2004 to February 7, 2005

(e) Series 5

During the year ended December 31, 2001, convertible debentures with a face value of $237,631 were issued by the company. During the year ended December 31, 2001 debentures with a face value of $6,998 were converted into 38,880 common shares.

The convertible debentures are unsecured, interest bearing at 10% per annum, with interest payable semi-annually in April and October. The debentures are due April 23, 2005, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.18	January 1, 2002 to April 23, 2002
$ 0.40	April 24, 2002 to April 23, 2003
$ 0.75	April 24, 2003 to April 23, 2004
$ 1.00	April 24, 2004 to April 23, 2005

At December 31, 2001, interest due October 23, 2001 of $11,210 had not been paid. The amount has been included in accounts payable and accrued liabilities.

8. LONG-TERM DEBT

	2001	2000
Capital lease obligation, payable $1,586 per month, due October, 2003. Manufacturing equipment under capital lease has been provided as security.	$ 34,885	$ 53,913
Less amount representing interest at 9.5%	2,984	6,809
	31,901	47,104
Loan, payable $354 per month, principal and interest at 8.50%, due October, 2003.	7,197	-
Loan, payable $3,113 per quarter, principal and interest at prime plus 2%, due December, 2003.	22,624	32,550
	61,722	79,654
Less current portion	30,354	25,137
	$ 31,368	$ 54,517

Future minimum lease payments and principal payments due in the next two years are as follows:

2002	$ 33,638
2003	31,068
	$ 64,706

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of Class B non-voting common shares

9. SHARE CAPITAL (continued)

(b) Issued - Class A common shares

	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	22,694,626	$ 44,286,007	21,229,807	$ 43,906,714
Issued during the year for:				
Exercise of warrants	-	-	256,258	99,941
Exercise of options	375,000	84,000	50,000	6,500
Conversion of debentures	1,887,233	480,424	1,057,230	249,180
Employee and director remuneration	-	-	101,331	23,672
Settlement of accounts payable	4,403,263	880,654	-	-
	6,665,496	1,445,078	1,464,819	379,293
	29,360,122	45,731,085	22,694,626	44,286,007
Convertible debentures equity component (see note 7)	-	74,023	-	43,458
Stock based compensation	-	156,514	-	-
	29,360,122	$ 45,961,622	22,694,626	$ 44,329,465

(c) The company has a stock option plan to remunerate certain employees. The company accounts for options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The risk-free rate used was 3.18%, the expected volatility was 3.54% which was based on two years of trading activity for the company's stock from March, 2000 to March, 2002, and the expected life of the options was 5 years. The compensation expense recorded during the current year was $124,133 and $32,381 was recorded as a charge to the opening deficit.

9. SHARE CAPITAL (continued)

(c) The options granted under the current stock option plan vest over an eighteen month period and have a maximum term of five years. Under the stock option plan, the company is authorized to grant a maximum of 5,000,000 options.

Stock options outstanding are as follows:

2001		
Exercise Price	Number of Options	Year of Expiration
$ 0.19	910,000	2006
$ 0.20	462,500	2006
$ 0.12	735,000	2005
$ 0.25	800,000	2004
$ 1.00	25,000	2004
	2,932,500	

2000		
Exercise Price	Number of Options	Year of Expiration
$ 0.12	810,000	2005
$ 0.25	1,100,000	2004
$ 1.00	75,000	2004
$ 1.00	266,667	2003
	2,251,667	

During the year ended December 31, 2001, the company granted a total of 1,372,500 (2000 - 810,000) stock options exercisable at $0.19 and $0.20 (2000 - $0.12) per common share.

During the year ended December 31, 2001, 375,000 (2000 - 50,000) stock options were exercised for proceeds of $84,000 (2000 - $6,500).

During the year ended December 31, 2001, 316,667 stock options were cancelled. During the year ended December 31, 2000, 300,000 stock options expired.

9. SHARE CAPITAL (continued)

(c) During the year ended December 31, 2001 the company and certain senior employees and a former senior employee agreed to convert deferred salaries to stock based compensation. Under the terms of the agreements, the company is obliged to pay these employees up to $325,000 contingent upon the employees exercising the employee stock options resulting in proceeds to the company of up to $325,000. The agreements expire in 2003 and 2004. In addition, the company may be required to issue up to 500,000 Class A common shares at market value to a maximum of $233,000 for nil consideration until December 21, 2004.

(d) Warrants outstanding were as follows:

During the year ended December 31, 2000, 1,248,594 warrants were repriced to an exercise price of $0.39 per warrant. Subsequent to the repricing, 256,258 warrants were exercised for proceeds of $99,941 and 992,336 warrants expired. There are no warrants outstanding at December 31, 2001 and 2000.

10. CONTINGENCIES

(a) On May 5, 1998, control of the company's wholly owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On November 1, 1999, the company filed an Amended Statement of Claim ("the claim") with the Court of Queen's Bench of Alberta. The principal defendant in the claim is SGGF. The claim alleges that the company has suffered damage to goodwill and other property, including its investment in Canamino. The claim asks for damages of $64,740,000. At December 31, 2001 and 2000, the status of the claim is undeterminable.

During the year ended December 31, 2001, the company received $120,000 from the sale of a 4.8% interest in the net proceeds, if any, from the above noted lawsuit. Investors are entitled to 4.8% of the net proceeds, if any, from the lawsuit to a maximum of $1,200,000.

(b) During the year the company entered into an employment termination agreement with a former employee. The agreement provides should Ceapro realize proceeds in excess of $4,000,000 by December 21, 2004 from the lawsuit described in note 10(a) or should Ceapro complete a partnership agreement or major financing agreement in excess of $4,000,000 by December 21, 2004, a $200,000 severance amount would be payable to the former employee.

11. SALES

Substantially all sales are export sales.

12. OTHER INCOME

Other income is comprised as follows:

	2001	2000
Settlement of accounts payable	$ 92,334	$ -
Conversion of deferred salaries and directors' fees to stock-based compensation	148,418	-
Reduction of loan payable	98,500	-
	$ 339,252	$ -

13. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these financial statements are as follows:

	2001	2000
Transactions with employees and directors		
Interest expense paid or payable to employees and directors	$ 10,888	$ 16,277
Amounts payable to employees and directors included in accounts payable and accrued liabilities	$ 107,830	$ 465,165
Amounts receivable from employees and directors and included in accounts receivable	$ -	$ 3,254
Convertible debentures payable to employees and directors	$ 81,386	$ 112,665

14. BASIC AND DILUTED LOSS PER SHARE

The following table outlines the calculation of basic and diluted loss per share:

	2001	2000
Numerator		
Numerator for basic loss per share: loss for the year	$ (346,103)	$ (915,895)
Effect of potentially dilutive securities:		
Income from convertible debentures	106,432	86,386
Adjusted loss for diluted loss per share	$ 239,671	$ 829,509
Denominator		
Denominator for basic loss per share: weighted average shares	27,145,366	21,620,070
Effect of potentially dilutive securities:		
Convertible debentures	4,473,798	2,380,363
Stock options	423,690	909,462
Potentially dilutive common shares	4,897,488	3,289,825
Denominator for diluted loss per share: adjusted weighted-average shares	32,042,854	24,909,895
Basic loss per share	$ 0.01	$ 0.04
Diluted loss per share	$ 0.01	$ 0.04

The effect of potentially dilutive securities were not included in the calculation of diluted loss per share in 2001 and 2000 as the result would be anti-dilutive.

The dilutive effect of outstanding stock options on loss per share is based on the application of the treasury stock method. Under the treasury stock method, the proceeds from the exercise of options is assumed to be used to purchase common shares.

For the year ended December 31, 2001, the following options were not included in the calculation of potentially dilutive common shares as the exercise price exceeded the average trading value of the shares: 825,000 options for common shares with an exercise price between $0.25 and $1.00.

For the year ended December 31, 2000, the following options were not included in the calculation of potentially dilutive common shares as the exercise price exceeded the average trading value of the shares: 341,667 options with an exercise price of $1.00.

15. INCOME TAXES

(a) Non-capital losses

The company has accumulated non-capital losses carried forward for income tax purposes of approximately $9,730,000, the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2002	$ 2,838,000
2003	1,074,000
2004	2,155,000
2005	1,748,000
2006	661,000
2007	683,000
2008	571,000
	$ 9,730,000

(b) Net capital losses

The company has net capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future taxable capital gains.

(c) Scientific research and experimental development (SR & ED)

The company has an accumulated SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The company has accumulated SR & ED investment tax credits of approximately $264,000. These credits may be applied against future federal income taxes payable and expire as follows:

2004	$ 25,300
2005	65,800
2006	37,900
2007	119,000
2008	16,000
	$ 264,000

15. INCOME TAXES (continued)

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's future income tax assets are as follows:

Deductible temporary differences:

	2001	2000
Non-capital losses and SR & ED expenditures carried forward	$ 11,236,000	$ 12,229,000
Deductible refinancing and share issue costs	-	8,000
Undepreciated capital cost for tax purposes in excess of net book value	252,000	248,000
Tax value of intangible assets in excess of amounts recorded in financial statements	2,988,000	2,988,000
	$ 14,476,000	$ 15,473,000

For financial statement purposes, no future income tax asset has been recorded at December 31, 2001 and 2000.

(e) Income tax rate reconciliation

The reconciliation of the company's effective income tax rate for the years ended December 31, 2001 and 2000 are as follows:

	2001	2000
Federal income tax rate	37.00%	38.00%
Provincial income tax rate, net of federal abatement	4.00	5.50
	41.00	43.50
Federal surtax	1.12	1.12
Applicable tax rate	42.12	44.62
Income tax rate reduction as a result of current year loss incurred for income tax purposes	(42.12)	(44.62)
Effective income tax rate	- %	- %

16. FINANCIAL ASSISTANCE

(a) National Research Council Canada

In the year ended December 31, 2000, the company received financial assistance from the National Research Council Canada in the amount of $52,904. The assistance related to testing the feasibility of new processing methods for oat extracts and expired March 31, 2000.

(b) AVAC Ltd.

In the year ended December 31, 1999, the company received financial assistance from AVAC Ltd., in the amount of $164,882 for the research and development of new products, patents and markets. The company is obligated to pay a 5% royalty (to a maximum of $329,763) on sales generated from products developed using these funds. Royalties payable relating to sales in 2000, 2001 and 2002 are due $2,000 per month commencing March 2003. All royalties relating to sales occurring after January 1, 2003 are due 60 days after each calendar quarter commencing March 31, 2003.

17. SUBSEQUENT EVENTS

(a) Issuance of common shares

Subsequent to December 31, 2001, the company issued 208,125 common shares for proceeds of $33,975. These share issuances relate to the exercise of outstanding stock options.

(b) Convertible debentures

Subsequent to December 31, 2001, $178,514 of debentures were converted to 1,190,090 common shares.

(c) Sale of interest in lawsuit

Subsequent to December 31, 2001, the company received an additional $45,000 from the sale of a 1.8% interest in the net proceeds, if any, from the lawsuit described in note 10(a). Investors are entitled to 1.8% of the net proceeds, if any, from the lawsuit to a maximum of $450,000.

Subsequent to December 31, 2001, a director agreed to invest (by reimbursement of direct legal costs) up to $250,000 to purchase an interest in the net proceeds, if any, from the lawsuit described in note 10 (a). The director is entitled to up to 10% of the net proceeds, if any, from the lawsuit, to a maximum of $2,500,000.

18. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term nature.

The fair value of long-term debt and convertible debentures are estimated using the company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

Information for Investors

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Edward Taylor
Chairman of the Board

Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic

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Equal Opportunity Employer
Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual

Executive Officers
Mark J. Redmond, Ph.D.
Chief Operating Officer and Chief Scientific Officer

Douglas M. Clement
Vice President, Business Development

Stock Information
Listed on the Canadian Venture Stock Exchange (CDNX)
Symbol: CZO

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Change of Address
Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

Financial Calendar
The Company's year-end is December 31.
The Annual Report is mailed in May.
Quarterly Reports are mailed in May, August, and November

Chartered Bank
TD-Canada Trust
148 Edmonton Centre
10205 - 101 Street
Edmonton, Alberta T5J 2Y8

2002 Annual General Meeting and Special Meeting
July 4, 2002 at 3:00 PM (local time) University of Alberta Faculty Club, Edmonton, Alberta

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